

Economic Regress: Essence, Causes and Sources of its Origin

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(Presented by Academy Member Vladimer Papava)

The main goal of the paper is to convey the essence, causes and sources of the "economic regress", an important event practically unstudied in the economic literature, to define the functions of the government as the "helmsman" of the economy and the reasons for the manifestation of economic regression in the economy of Georgia. To achieve this goal, the concept of "consolidated economy" is introduced and its essence is revealed. The research used methods of systematic analysis and abstraction. We associate economic regress, as well as economic development, with qualitative changes in the economy. Economic development is the transition of the economy to a new, qualitatively more perfect state, and economic regress is the transition of the economy to a new, qualitatively worse state. A consolidated economy is such an economy on which the combination of factors contributes to the improvement of the elements of the economic system and the interdependence between them, i.e the transition of the economy to a qualitatively new, more perfect state. When the degree of consolidation of the economy is violated under the influence of various factors, then there is an economic regress. The emergence of economic regress does not mean economic decline and, moreover, economic crisis. If economic regression is eliminated, economic fluctuations will be eliminated. © 2023 Bull. Georg. Natl. Acad. Sci.

consolidated economy, economic regress, socialization of economy, economic development

The word regress expresses the deterioration of the condition, delay in development. Therefore, economic regress means the worsening of the situation in the economy, the delay in its development. The phenomenon of economic regress is practically unstudied in the economic literature. Regarding this problem, there is only one article by Lamont University professor Amartya Sen at Harvard University [1].

In this paper, the essence of "economic regress" is not defined, and attention is shifted to its evaluation indicators and only to quantitative indicators. Therefore, the author associates economic regress with the deterioration of quantitative determinants. While nowadays in the literature, to indicate the deterioration of the quantitative indicators of the economy, concepts are successfully used, such as: economic decline, economic recession, economic crisis, however not economic

regress. We associate both economic development and economic regression with qualitative changes in the economy. Economic development is the transition of the economy to a new, more refined qualitative state, while economic regression is the transition to a new, deteriorated qualitative state of the economy.

In order to better understand the essence of economic regression, we introduce the concept of "consolidated economy".

Consolidated Economy

Nowadays economy has become dependent not only on economical factors, but various non-economical factors. Therefore, proceeding from the interests of economic development, a certain consolidation of these factors is required to direct economic system to stable development path and on this basis to steady economic growth. Such economic system might be called a consolidated economic system or simply consolidated economy.

Consolidated economy is such an economy, when the unity of factors influencing it promotes economic development.

Economic Regress

Each spillover of consolidation causes negative changes in the economy, it undergoes a qualitative decline, anti-development processes arise in it, which we call economic regress.

Therefore, during the economic regress, negative charge is placed in the economy, which does not immediately lead to the deterioration of the quantitative indicators of the economy. But if regress is not neutralized, eventually it will lead to significant negative processes, including the economic crisis itself.

When considering the relationship between economic regress and economic growth, it is possible to have the following cases:

1. Economic regress is followed by economic growth. Mainly it is the result of prolongation of

crisis (internal and external wars, social tension, incapable government etc.). Then the state takes the reins of the government into its own hands enabling it to overcome social contradictions and reach high rate of economic growth. But, at the same time economic regress gains strength and, finally, the transition to market system occurs again in evolutionary or revolutionary way (postcommunist countries). Practice shows that proceeding from circumstances economic regress may seem reasonable for certain time. But if the reasons causing the regress are not eradicated, economic growth will be slowed and ended in crisis.

2. Economic regress may result the slowing down of economic growth rates and finally economic decline. For example, radical deterioration of political and criminal situation is followed by the decrease of investments and, consequently, of growth rates, and finally without taking adequate measures economic crisis shall occur.

3. Economic regress over a certain period of time has no effect on economic growth (or does not seem to). For example, the growth of foreign and domestic debts and their inappropriate use, as well as the government's non-economic interventions in business, may not immediately have significant negative consequences, but gradually it will become the basis of many negative processes. Gradually, the conditions are being prepared, first for reducing growth rates, and then for economic decline and crisis.

Causes and Sources of Economic Regress Origin

Economic regress takes place when there are various causes of origin of economic regress, related to the current processes in the economy and society and market failures, as well as to unintentional or intentional mistakes made by the government. There are various causes and sources of economic regress origin, such as:

Heavy social conditions. When government is unable to create adequate conditions of life for population, establish order, create prerequisites of stable economic growth. To find the way out of such situation will be possible by coming of new forces in government, taking all reins of government and quickly achieving a significant success. This may be implemented in the conditions of restriction of market economy or formally without the change in the market.

The first option was implemented in the Soviet Union, which was initially followed by rapid economic growth, but negative charge was placed in the economy, which eventually resulted in return to market relations. We believe that if this transition had been carried out on time (which Stalin's government had already started), the events in the Soviet Union would have developed differently.

Was there a market during the Soviet Union? It is wrong to say that there was no market at all under socialism. Where there is exchange of goods, there is also a market in some form. But it existed in the Soviet Union in an extremely limited form. In this case, many functions of the market were replaced by the state, but it, although under conditions of great restrictions, still relies on the demands of the market. With great obstacles, but still, the funds flowed to those areas where the demand was greater. Prices were set by the state, but to some extent it still relied on the law of supply and demand. Private property was outlawed, but it still existed as private property and in the shadow economy.

It is true that the enterprises were in common ownership, but the management group treated them as private property, as a result of which they received illegal income from their "business" activities. Therefore, there was a layer of employed in the enterprises, who to a certain extent represent the carriers of the qualities of businessmen [2]. In principle, their activities were related to positive qualitative changes in the economy, certain progress (improvement of technologies, weakening of the rule of the bureaucracy, creation of prere-

quisites for transition to market economy, perfection of formal institutions, etc). The existence of the market is also indicated by the existence of agricultural property and an independent agricultural market.

It should also be noted that until 1927 there was private property in the Soviet Union (in accordance with the new economic policy) and then, until 1956, the entrepreneurial sector of completely different directions (food industry or metal processing industry, jewelry or chemical industry), crafts and enterprises (crafts), which play an important role in the economy of the Soviet Union. Construction bureaus, experimental laboratories, scientific research institutes, non-governmental organizations functioned in the entrepreneurial sector. Pension system, artels gave loans, etc. The government of that time, it seems, was aware of the negative consequences of economic regression and helped to develop the economy. He was involved in the development of private property and the strengthening of the government's activities. If this business sector had not been destroyed and had been strengthened in 1956, there would have been a strong economic rise in the Soviet Union.

It can be said that the economy of the Soviet Union was an extremely limited market economy, that is why it was called a non-market command-administrative economy.

What were the main shortcomings of the command-administrative economic system, which prevented the further development of the economy? This question is answered in the works of well-known representatives studying these problems [3-5]. It should be noted that these shortcomings had been corrected, the events in the Soviet Union would have been developed differently.

Wrong Economic Policy

It can be manifested in different ways:

Socialization of economy. During the mixed economy, the role of the state in the economy

grows, and sometimes it passes into the socialization of the economy, which is followed by the concentration of power in the hands of the state, which in itself limits the economic freedom and is the source of many negative events. Finally, we will have to deal with economic regression, which will be followed by economic crisis. It is possible to look for the reasons for this in economic paralogisms (unintentionally taking wrong measures with wrong logic) [6], people in power and society in general. In the mentality of the DOE, in the pressure of interest groups, in the weaknesses of democracy [7].

Economic freedom should not be confused with political freedom, since it is possible to have an autocratic government in the country, but at the same time to have complete economic freedom (i.e. Lithuania, Singapore and Taiwan, at one time South Korea). The opinion is expressed that democracy should thank capitalism (that is, freedom in economics) and not vice versa [7-9]. To some extent this is true, capitalism has brought democracy, because democracy cannot be achieved without economic freedom, but without democracy economic independence may not exist or cannot be maintained for a long time.

Wrong tax policy. The sub-optimal size of the tax budget reduces investments, hinders the improvement of technologies, the implementation of innovations and, therefore, economic growth or reduces revenues in the budget, which prevents the state from performing its functions, which is also followed by a decrease in economic growth rates.

Isolation from the outside world, strict protectionist policy. Such a policy is followed by the limitation of investments, underdevelopment of technology, reduction of innovations, reduction of competitiveness.

Inadequate funding of science, education and innovation.

Education and science are the foundation of development. The well-being of the society is inextricably linked to the innovation. It led to unprecedented progress in all spheres of human activity and daily life. It can be said that the process of economic development is the process of implementing innovations in all elements of the economic system. Innovative economy is based on knowledge, flow of innovations, constant perfection of technologies, information, institutions, human capital, production organization, products, etc. on intellectual work of scientists and innovators.

Therefore, it hinders the functioning of the economic system. It gives rise to many negative events: shadow economy, nepotism, corruption, etatism, etc.

The wrong economic policy of the government also includes: popular promises offered by politicians during elections; wrong anti-monopoly policy; non-economic intervention of the government in business; violation of private property; Incorrect agrarian, monetary-credit and budgetary policy and others.

Unfair globalization. It can have a very large negative impact on the economy: limit national production, slow down technological progress, reduce human capital, deplete natural resources, etc. In addition, negative processes of a global nature also have a negative impact on the national economy, etc.

Failures of the market economy. The problems of failures of the market economy are widely discussed in the economic literature. We only find out that, if these problems are not eliminated in time, regressive problems arise in the economy. For example, if the problem of poverty and inequality of income distribution is not solved in time, it may lead to an aggravation of the social and criminogenic situation; Failure to take into account ecological requirements, deterioration of natural

resources, physical and human capital, reduction of production, etc.

Chaotic nature of the economy. It is the most invisible source of economic regression, which cannot be completely eliminated. It is difficult to predict the regression caused by chaos not only before the crisis, but also during the crisis and even after the crisis (for example, many reasons for the great economic depression and other crises are known in economic theory). There are a large number of economic agents in the market, whose activities are completely free within the framework of the "rules of the game" established by the government. It is true that the market economy is governed by different types of laws that give it stability over a certain period of time, but the activities of each agent and their aggregated action do not always correspond to the requirements of economic stabilization. It is possible to cite many examples of chaos. But, at the same time, the chaos of the market gives the opportunity to use the market mechanism. Therefore, the goal of the state should not be to eliminate chaos, but to detect its negative effects and to avoid them or overcome the existing negative results as quickly as possible and with less losses.

Change in natural conditions. Is the decline caused by changes in natural conditions (drought, floods, lack of harvest, reduction of raw materials,

etc.) a source of economic regression? Of course, it is to a certain extent, since in this case, there is an economic decline, i.e. negative quantitative changes, it turns into negative qualitative changes. For example, unemployment and poverty increase, which reduces the country's human capital and causes social tension, etc.

Wrong foreign policy. Policy aimed at confrontation with neighboring states, especially large states.

In addition, the source of economic regression can be outdated technologies, production methods and forms; Rapid and large-scale change in the exchange rate; Underdevelopment and failure of the market infrastructure; Undocumented emission of money; Budget deficit; Large internal and external debt, overpopulation, etc.

As an example of the detection of regressive processes in the economy, along with other countries, Georgia can be used, where there were both objective and subjective reasons for the detection of economic regression [10-21].

Economic regression can occur in any, even the most highly developed economy. Therefore, it is necessary to constantly drive the economy. For this, the state should perform the function of "steerman" of the economy, in order to avoid economic regression and related economic fluctuations.

ეკონომიკა

ეკონომიკური რეგრესი: არსი, მისი გამომწვევი მიზეზები და წყაროები

რ. აბესაძე

ივანე ჯავახიშვილის სახ. თბილისის სახელმწიფო უნივერსიტეტი, პაატა გუგუშვილის სახ. ეკონომიკის ინსტიტუტი, თბილისი, საქართველო

(წარმოდგენილია აკადემიის წევრის ვ. პაპავას მიერ)

ნაშრომის მთავარი მიზანია, გადმოვცეთ ეკონომიკურ ლიტერატურაში პრაქტიკულად შეუსწავლელი მნიშვნელოვანი მოვლენის, „ეკონომიკური რეგრესის“ არსი, მისი წარმოშობის მიზეზები და წყაროები“. ამ მიზნის მისაღწევად შემოტანილია „კონსოლიდირებული ეკონომიკის“ ცნება. კვლევაში გამოყენებული იყო სისტემატური ანალიზისა და აბსტრაქციის მეთოდები. ეკონომიკურ რეგრესს, ისე როგორც ეკონომიკურ განვითარებას, ჩვენ ვუკავშირებთ ცვლილებებს ეკონომიკაში. ეკონომიკური განვითარება არის ეკონომიკის ახალ, თვისებრივად უფრო სრულყოფილ მდგომარეობაში გადასვლა, ხოლო ეკონომიკური რეგრესი ეკონომიკის ახალ, თვისებრივად გაუარესებულ მდგომარეობაში გადასვლა. კონსოლიდირებული ეკონომიკა ისეთი ეკონომიკაა, რომელზეც მოქმედ ფაქტორთა ერთობლიობა ხელს უწყობს ეკონომიკური სისტემის ელემენტთა და, მათ შორის, ურთიერთდამოკიდებულების სრულყოფას, ანუ ეკონომიკის თვისებრივად ახალ, უფრო სრულყოფილ მდგომარეობაში გადასვლას. როდესაც სხვადასხვა ფაქტორის გავლენით ირღვევა ეკონომიკის კონსოლიდაციის ხარისხი, მაშინ ადგილი აქვს ეკონომიკურ რეგრესს, რომელიც არ ნიშნავს ეკონომიკურ დაქვეითებას და, მით უმეტეს, არც ეკონომიკურ კრიზისს. თუ ეკონომიკური რეგრესი აღმოიფხვრება, ეკონომიკური რყევები თავიდან იქნება აცილებული.

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